Industrial Distribution

George J. Berkwitt, chief editor
875 Third Ave., New York, NY 10022
(212) 605-9541

Milt Ellenbogen, managing editor
Duffy Marks, senior editor
Y.D. Scholar, senior editor
Mark D. Pellis, assistant editor
Rose Fritsch, assistant editor
Allen Pinto, Washington

Linda Rossi-Costa, design director

Joseph Zaccaria, circulation manager
Henry Carey, promotion mgr.
Laurie Schnepf, market research director
Dorice B. Terry, mgr. mrktg. services
Lonnie Simpson, administrative asst.

Dana Richardson, production mgr.
(212) 605-9637

Kerry J. Cannon, publisher

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INDUSTRY NEWS

Small distributors suffer as public companies gain market share

CHICAGO—Smaller industrial distributors are losing market share to larger, better capitalized distributors and this trend will continue unless the smaller firms find some way to raise capital, possibly by going public, said William F. Jelin, senior investment analyst, Bacon Stifel Nicolaus.

"It seems to me that some of the larger firms are growing more rapidly than some of the smaller firms," he said. "The $5 million companies have been losing market share to the larger companies like Bearings Inc., Lawson Products, or Premier Industrial. These companies have grown more rapidly, by a magnitude of maybe two or three times, than either industrial production in general or the *NIDA-SIDA Index*."

To compete with the larger firms, Jelin said, smaller industrial distributors need to raise capital in order to grow and add product lines, and one of the viable methods of raising capital is by going public.

Although there is no present trend towards publicly held industrial distributorships, he said, losses in market share are creating the kind of atmosphere that makes it worthwhile for distributors to go public.

Many of Jelin's conclusions are drawn from data compiled while researching a financial profile and survey of publicly owned industrial distributors and wholesalers recently published by Bacon Stifel Nicolaus, a securities investment banking firm involved in assisting companies attempting to go public.

"When companies become publicly owned," said Jelin, "they tend to become more growth oriented. Of course, I cannot say for sure that they were not that way prior to going public, but now there are certainly a wider variety of growth options."

A direction that many companies would like to grow in is systems selling, the analyst said. However, he stated that he could not really determine which firms actually had the capital or management depth necessary to carry out these programs.

"If the traditional NIDA-SIDA members are not going to go in this direction, it seems to me that some of the more well capitalized firms may buy selective distributors in order to add more layers of management talent," Jelin said. He noted that Columbia General, although it is having a problem finding a sufficient amount of capital, is an example of a company attempting to add product lines through selective acquisitions.

A problem that those industrial distributors wanting to go public may face, said Jelin, is that they may not have a good enough financial track record. "Whether a distributor group in general can attain enough market attention to go public is based upon how well the manufacturers they represent are doing and how they are perceived in the stock market," he said. "If a company in an area that is generally not in favor in the stock market wants to go public, it better have a five year performance record of at least 20% growth and 20% return on equity, or at least demonstrate the prospect of that kind of performance. Coming out of a recession like this, this can be a very tough thing for an industrial distributor."

Bacon Stifel Nicolaus' survey of industrial distributors and wholesalers is available for $50.00. Write to the firm at 135 South LaSalle St., Chicago, IL 60603. □

Sales and Assets Profile
(000's $ ommitted)

Company	Net Sales Latest Fiscl Yr.	Net Sales Percent Change	Total Assets Latest Fiscl Yr.	Total Assets Percent Change
W. W. Grainger Inc.	803228	-7.4	520371	10.3
Bearings Inc.	369449	3.4	163170	6.5
Premier Industrial	332215	4.6	207016	23.3
Noland Co.	247091	-6.7	102993	0.2
Ducommun Inc.	223488	18.0	157246	13.5
Belknap Inc.	165205	-0.6	54206	-5.3
Familian Corp.	148628	-6.8	62511	-3.5
Lawson Products Inc.	104504	-4.5	68713	7.6
Syracuse Supply	93474	-20.9	52837	7.0
Sterling Pipe & Supply Co.	58587	-44.8	32238	-22.2
Eastco Industrial Safety Corp.	12465	11.7	5395	9.0

Note: Percent change refers to percent increase or decrease from the preceding year.
Source: Bacon Stifel Nicolaus

Durable goods are up as the economy shows unexpected strength

WASHINGTON—The 3.5% increase in nondefense durable goods new orders that occurred in August indicated that the economy is showing more strength than expected in spite of a three month backup in interest rates, according to Michael K. Evans, consulting economist to the American Production & Inventory control society.

While the July and early August numbers were quite lackluster, the economist said, the increase in housing starts, the upward revision of second quarter GNP, and the sharp decline in initial unemployment claims all support the increase in new orders.

"The major reason for this quick turnaround," Evans said, "was the reversal of interest rates in early August and the widespread belief that they would continue to decline for the remainder of the year. Generally, the economy responds with a three to six month lag to changes in interest rates. This time, though, the response was almost instantaneous. Evidently the May to August backup in rates was seen as a temporary aberration which would be remedied as soon as the economy slowed down, which is precisely what did happen."

Inventory building

The manufacturing inventory/sales ratio had declined to a 33-year low in June, while stocks increased only marginally in July. Now, said Evans, the stockpiling of inventory can begin in earnest since the hesitancy felt by many businessmen has now been removed.

The economist provided the following economic scorecard for 1984: real GNP will rise almost 6%, while the rate of inflation will be under 4%; unemployment, while

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borundum announcement, the executive said.

Norton's policy of selective distribution has not changed, Hamilton said. "Our field people simply selected the distributors to go after. We will continue with a policy of selective distribution although the Carborundum move results in there being a few more Norton distributors than before, he added."

Thus far, Norton has added 30 former Carborundum distributors, which is less than 5% of those available.

"I believe we have successfully implemented our strategy of selecting the few best distributors in any given trading area," Hamilton said. □

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Indicators . . .

All signs show that the economic recovery has taken hold and is continuing, despite the fact that last month's indicators showed some slowing. For the third month in a row the *NIDA-SIDA Industrial Distribution Index* registered an increase as it went from August's 121.0 to its September level of 121.6. The eastern and southern region showed gains, while the midwestern and western regions showed losses. The Midwest was down 1.4 points and the West declined 2.3 points. The *NIDA-SIDA Industrial Supply Inflation Index* dropped to 154.5, a 0.4% decrease from the previous month . . . The *SIDA Monthly Sales Trend Report* for August recorded a sales increase of 17.09 points over the previous month while showing sales to be 11.31 points ahead of August, 1982. Year-to-date figures have this year's sales 4.11 points behind last year . . . The *ASMMA New Order Index* rose 1.0 points to 104.1 in August, up 1.0% from July . . . Consumer confidence in the U.S. continues steady and strong, according to The Conference Board, as its *Consumer Confidence Index* registered 83.9 for September. The *Buying Plans Index* increased to 108.6, the highest figure reported this year . . . The National Welding Supply Assn.'s *Welding Supply Index* was up 17.9% in August to 155.5, compared to July's level of 131.9. The August advance is the largest one-month gain recorded and surpasses the high levels reached in March and June of this year . . . The National Wholesale Hardware Assn.'s *Hardware Sales Index* posted a slight increase in August to 106.7, putting it 6.1% ahead of August, 1982 . . . According to the Copper & Brass Servicenter Assn., distributors of copper and brass mill products attained their best shipment level for most products in three years during August. The *CBSA Index* reached 113.8, a 26.6% rise over the preceeding month . . . The *Purchasing Managers' Composite Index*, prepared by the National Assn. of Purchasing Management, registered 60.2% in September, down from 63.6% in August. The drop is attributed to seasonal adjustment factors and the reading is still regarded as strong.

REGIONAL REPORT

September sales steady

After several months of increasing sales gains nationally, when compared to 1982, September figures, although still in the plus column, have leveled off.

Nationally, September '83 compared to September '82 is up 12%, or down slightly from the 14% recorded in August. However, in month-to-month comparisons, the country is down 1% compared to a whopping 16% increase in August. Although most regions are still in the plus column, a moderation of recent gains is evident.

In cumulative reporting, the first 9 months of 1983 measured against the first 9 months of 1982, now stands at 0 or even indicating that the poor showing of the first three months of '83 has been overcome by the rapid gains of the following 6 months.

In regional reporting, the West North Central and the Middle Atlantic show plus figures for both month-to-month and yearly comparisons. The East North Central is especially strong in the latter category.

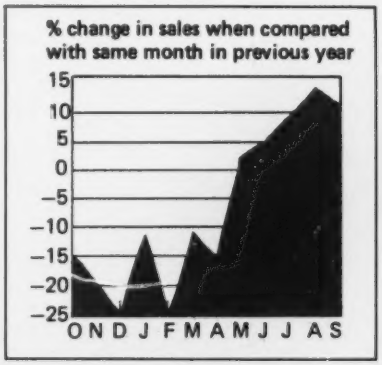
In areas, Georgia-Florida continues to show good gains in the year-to-year category, as does Oregon-Washington.

There is no "poor" region in the reports gathered for this month, although the Pacific is mixed. In area reports, Wisconsin is mixed, with strong positive figures in year-to-year comparisons, and significant negative figures in month-to-month comparisons.

Not enough reports were received from the New England regions and areas to make valid statistical comparisons. □

RECEIVABLES*	Sept. '83 Gen.	Sept. '83 Spec.	Sept. '82 Gen.	Sept. '82 Spec.
New England	42	—	41	—
Middle Atlantic	42	45	43	42
South Atlantic	36	35	34	34
East North Central	39	43	38	55
East South Central	—	—	—	—
West North Central	39	38	37	41
West South Central	—	—	—	—
Mountain	—	—	—	—
Pacific	40	45	37	43
National	41	41	36	43

*Average days outstanding



Sales level off in September . . .

SALES BY REGIONS (% change)	Sept. '83 vs Aug. '83 Gen.	Spec.	Both	Sept. '83 vs Sept. '82 Gen.	Spec.	Both	1st 9 mos. '83 vs 1st 9 mos. '82 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	–8	—	—	–7	—	—	–5	—	—
Connecticut	–13	—	—	–12	—	—	–8	—	—
Massachusetts	–8	—	—	–7	—	—	–7	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+8	+1	+4	+5	+3	+4	–11	–9	–10
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	+2	–2	0	+21	+20	+21	–4	–7	–5
Pennsylvania	+19	–4	+7	+3	+8	+5	–15	+1	–8
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	+3	–9	–3	+11	+19	+14	0	+9	+4
Georgia-Florida	+13	–4	0	+19	+20	+19	–2	+8	+6
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	–6	+1	–2	+20	+37	+28	+7	+5	+6
Indiana	—	—	—	—	–3	—	—	+32	—
Wisconsin	–14	–7	–8	+7	+30	+25	–1	+5	+4
Chicago	—	—	—	—	—	—	—	—	—
Michigan	–1	+15	+3	–23	+34	+26	+7	–3	–4
Ohio	+2	—	—	+24	—	—	+11	—	—
EAST SOUTH CENTRAL: AL, MS, KY, TN	–6	—	—	+14	—	—	+1	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+20	+4	+6	+14	+15	+15	–17	–5	–7
WEST SOUTH CENTRAL: AK, LA, OK, TX	—	–12	—	—	–10	—	—	+1	—
Texas	—	–12	—	—	–10	—	—	+1	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	–13	—	—	+32	—	—	+11	—	—
PACIFIC: CA, OR, WA	0	+2	+1	–3	+20	+6	–8	+4	–3
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+6	–9	+1	+13	+18	+15	–9	+2	–6
U.S. TOTALS	–1	–2	–1	+8	+16	+12	–1	+1	0

NOTE

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